



VAT- A MODERN MECHANISM TO PREVENT TAX EVASION

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ABSTRACT

VAT being a global phenomenon, though not adopted by America, still has some new perspectives in the direction of enhancement of revenue and thus contributing to the growth of economy. India tasted the honey of VAT by the tongue of the state of Haryana.

Value Added Tax (VAT) is a system of indirect tax levied on exchanges. It is charged on the value added that results from each exchange. It differs from a sales tax because a sales tax is levied on the total value of the sale to the ultimate consumer. This new concept was invented by a French Economist Maurice Laure, Joint Director of the French Tax Authority, in 1954. VAT is neutral with respect to the number of passages that there are between the producer and the final consumer. It is an indirect tax, in that the tax is collected from someone other than the person who actually bears the cost of the tax (namely the seller rather than the consumer). More than 130 countries including neighbouring Pakistan, Bangladesh, Nepal, Sri Lanka and China have adopted VAT. In India we have two types of VAT, one for the Central Government CENVAT and the other is for the State Government - State VAT or simply VAT. CENVAT covers central excise, customs and service tax, whereas State VAT covers Sales Tax. The scope of this study is mainly related to the State VAT.

KEY WORDS : Awareness, effectiveness, complicacies, exploitation, enhancement.

Introduction :

Value Added Tax (VAT) is a system of indirect tax levied on exchanges. It is charged on the value added that results from each exchange. It differs from a sales tax because a sales tax is levied on the total value of the sale to the ultimate consumer. This new concept was invented by a French Economist Maurice Laure, Joint Director of the French Tax Authority, in 1954. VAT is neutral with respect to the number of passages that there are between the producer and the final consumer. It is an indirect tax, in that the tax is collected from someone other than the person who actually bears the cost of the tax (namely the seller rather than the consumer). More than 130 countries including neighbouring Pakistan, Bangladesh, Nepal, Sri Lanka and China have adopted VAT. In India we have two types of VAT, one for the Central Government CENVAT and the other is for the State Government - State VAT or simply VAT. CENVAT covers central excise, customs and service tax, whereas State VAT covers Sales Tax. The scope of this study is mainly related to the State VAT.

Objectives :

The main objectives of the study are as follows:

1. To describe when and where VAT was surfaced
2. To explain how it is calculated and how it differs from sales tax
3. To describe various VAT rates for the state of Orissa.
4. To examine its awareness, effectiveness, complicacies, input tax credit and TDS of VAT among various categories of people in the state of Orissa.
5. To find out the summary and on that basis to make some suggestions.

Methodology:

Extensive literature search was undertaken for secondary data collection. This included the details of work done and literature with research and trade associations, journals and technical papers, published reports of government and semi government bodies, voluntary agencies, published reports of the government and semi government bodies, voluntary agencies, international bodies, expert committee and working group reports of relevance, technical literature. In addition to that some articles published in the internet had been referred, the list of which has been given in this in the references. In order to

gain some practical knowledge personal visits were made to the central excise building and commercial tax offices in Bhubaneswar where discussions and consultations were made with concerned officials with regard to the present day problems of VAT.

Primary Data Collection:

VAT is a global concept. Being conservative in nature it is presumed that our people cannot easily accept it. In order to ascertain its awareness and effectiveness the desk research was further supplemented by mail survey through structured questionnaires and personal interviews for better insight into various facets of VAT. Interviews and personal visits were being undertaken to supplement questionnaires.

The respondents were broadly classified into:

1. Common Consumers :

Under this category - teachers, cultivators, chartered accountants, retired persons and other job holders had been included

2. Retailers :

Under this category betel shop owners, medicine sellers, petrol pump houses, mobile phone equipment sellers and some pedlars had been considered for collection of information.

3. Wholesalers :

Under this group wholesalers of various types of commodities had been selected for our study.

A well structured questionnaire as shown in Annexure was designed for these three groups of people mentioned above and who were contacted for the purpose of collection of information. First of all 100 respondents from the first two categories and 50 respondents from the third category were being chosen at random from each category as described above. Questionnaires containing a small piece of letter at its top informing our purpose of data collection were sent to the respondents. First follow up was done after providing 3-4 days for the responses to reach us. A second follow up was carried out in cases where either the response was still awaited, or where more details or information was necessary. Finally about 80% respondents responded to our questionnaires after active follow up.

The questionnaire contains important parameters like the Awareness, Effectiveness, Process of calculation, Procedure of payment, mode of preparation, TDS mechanism, Difference between Sales Tax

and VAT, Burden of tax. Price enhancement, Exploitation, More paper work and More complicated taxation.

The next step was compilation and analysis of data. The collected figures, specifications, reports and survey results along with projections made by various groups formed the basis of our analysis of the taxation procedure, apart from personal interviews, and in-house study and database. The data collected from the respondents are tabulated in MS Excel. It is then analysed by SPSS.

Data Analysis :

On collection of filled up questionnaires from various respondents the data were systematically transferred to Excel Sheets for further analysis. For a better analysis all the parameters were broadly divided into four categories such as Awareness, Effectiveness, Complicacies and Refund & TDS. All these factors have been described in four different tables.

(I) Awareness of VAT :

In Table-1 the factor "Awareness" of VAT among various sections of people has been described. On a question regarding familiarity with VAT 87% of the consumers, 93% of the retailers and cent percent of wholesalers nodded their heads with positive consent. Regarding the replacement of sales tax by VAT 63% common consumers, 89% retailers and cent percent wholesalers expressed their awareness. About the process of VAT calculation, 87% of consumers, 94% of retailers & all wholesalers consented positively. With regard to the question of "VAT is better than Sales tax" still some people looking it at a suspicious eye due to various reasons such as more complicated procedure and "Inspector Raj". 80% of the consumers, 70% of the retailers, 67% of the wholesalers are in favour of the statement.

Table-1: Awareness

Parameters	Respondents	Responses				Total	
		Yes		NO			
		F	%	F	%		
Are you Conversant with VAT	Consumers	52	87	8	13	60 100	
	Retailers	87	93	6	7	93 100	
	Wholesalers	49	100	0	0	49 100	
	Total	188	93	14	7	202 100	
	Consumers	38	63.	22	37	60 100	
	Retailers	83	89	10	11	93 100	
	Wholesalers	49	100	0	0	49 100	
	Total	170	84	32	16	202 100	
	Consumers	48	80	12	20	60 100	
	Retailers	65	70	28	30	93 100	
	Wholesalers	33	67	16	33	49 100	
	Total	146	72	56	28	202 100	
	Consumers	52	87	8.	13	60 100	
	Retailers	87	94	6	6	93 100	
	Wholesalers	49	100	0	0	49 100	
	Total	188	93	14	7	202 100	

Source : Complied from the questionner.

(II) Effectiveness of Vat :

In Table-2 the "Effectiveness" factor of implementation of VAT has been described. With regards to the preparation of their own VAT accounts 75% of the retailers & 31% of wholesalers opined that they prepare the said accounts themselves. However 24% of the retailers 69% of the wholesalers get their VAT accounts prepared by either Chartered Accountants or Advocates. Similarly majority respondents are of the opinion that the levy of VAT does not enhance the prices of products.

Table-2- Effectiveness

Parameters	Responses	Respondents						Total	
		Consumer		Retailer		Wholesalers			
		F	%	F	%	F	%	F	%
1	By self	0	0	70	21	75	15	31	42
2	By ADV/CA	0	0	2	24	34	69	2	27
3	By others	0	0	0	1	0	0	0	1
4	NA	60	100	0	0	0	0	60	30
	Total	60	100	93	100	49	100	202	100
1	Seller	0	0	0	0	0	0	0	0
2	Buyer	0	0	0	0	0	0	0	0
3	Ultimate Consumer	--	--	--	--	--	--	--	--
	Total	60	100	93	100	49	100	202	100
1	Yes	1	2	9	10	1	2	2	5
2	No	56	93	80	86	47	96	11	91
3	Cannot Say	3	5	4	4	1	2	183	84
	Total	60	100	93	100	49	100	202	100
1	Yes	3	5	4	4	2	4	9	184
2	No	55	92	84	90	45	92	9	91
3	Cannot Say	2	3	5	5	2	4	5	5
	Total	60	100	93	100	49	100	202	100

Source : Complied from the questionner.

(III) Complicacies of VAT :

The complexities of the VAT system have been described as a factor in Table-3. It mainly includes the difficulties faced in the implementation of VAT at initial stages, 88% of the consumers, 91 % of retailers and 94% of wholesalers agreed that VAT involves more paper work and cumbersome calculation.

Apart from that 88% consumers, 90% of retailers and 88% wholesalers of our study demand that the Govt. should abolish other taxes like Entry tax / Octroi Tax etc. after levy of VAT. Most of the respondents are in favour of a single national VAT and assesses friendly tax administrative machinery.

Table-3: Complicacies

Parameters	Respondents	Responses				Total	
		Yes		NO			
		F	%	F	%	F	%
1	Consumers	53	88	7	12	60	100
2	Retailers	85	91	8	9	93	100
3	Wholesalers	46	94	3	6	49	100
	Total	184	91	18	9	202	100
1	Consumers	53	88	7	12	60	100
2	Retailers	84	90	9	10	93	100
3	Wholesalers	43	88	6	12	49	100
	Total	180	89	22	11	202	100
1	Consumers	55	92	5	8	60	100
2	Retailers	83	89	10	11	93	100
3	Wholesalers	38	78	11	22	49	100
	Total	176	87	26	13	202	100
1	Consumers	60	100	0	0	60	100
2	Retailers	93	100	0	0	93	100
3	Wholesalers	49	100	0	0	49	100
	Total	202	100	0	0	202	100

Source : Complied from the questionner.

(IV) Input Tax Credit & TDS of VAT:

TDS and Input Tax Credit are two important aspects of VAT which has been focused in the Table-4. With regards to the functioning of TDS mechanism 62% of consumers, 60% of the retailers & 74% of the wholesalers agree that it is working well. A higher percentage expects that some steps should also be taken by the administrative machinery to make it more effective. With regards to the input tax refund 74% of the wholesalers have complaints facing problems.

TABLE- 4 - INPUT TAX CREDIT and TDS

Parameters	Responses	Respondents				Total			
		Consumers		Retailers					
		F	%	F	%	F	%	F	%
1	Well	37	62	56	60	36	74	129	64
2	Net working well	15	25	22	24	12	25	49	24
3	Can not Say	8	13	15	16	1	2	24	12
	Total	60	100	93	100	49	100	202	100
1	Yes	49	82	79	85	45	92	173	86
2	No	2	3	0	0	2	4	4	2
3	Can not Say	9	15	14	15	2	4	25	12
	Total	60	100	93	100	49	100	202	100
1	Yes	0	0	0	0	36	74	36	18
2	No	0	0	93	100	13	27	106	53
3	Not Applicable	60	100	0	0	0	0	60	29
	Total	60	100	93	100	49	100	202	100

Source : Complied from the questioner.

Suggestions:

According to this study, the following major suggestions may be drawn :

1. VAT is to have a simple, fair and assessee friendly system.
2. A single National VAT should be introduced.
3. The Entry Tax, Luxury Tax, Central Sales Tax should completely be abolished.
4. The State Government Should Provide more staff for the enforcement of VAT
5. More seminars, symposiums and discussions should be held to inform people what should be their duties to make VAT more effective
6. The traders should be given proper training to maintain the sale and purchase accounts properly.
7. The State Government should be given the power to reduce the VAT rate for any item where it feels necessary for the improvement of economic condition of the state by taking the Empowered Committee and FICCI into confidence.

Summary and Conclusion :

VAT being a global phenomenon, though not adopted by America, still has some new perspectives in the direction of enhancement of revenue and thus contributing to the growth of economy. India tasted the honey of VAT by the tongue of the state of Haryana. According to this study the following major conclusions may be drawn

1. Out of 202 respondents about 93% (188) are aware of the introduction of VAT as a substitute of Sales Tax.
2. 72% of the respondents opined that it is better than sales tax in every respect

3. Similarly 93% of the respondents are conversant with the process of VAT calculation.
4. Most of the wholesalers - 69% prepare their VAT accounts with the help of either Chartered Accountants or Advocates, whereas 75% of the retailers prepare their own accounts themselves.
5. With regard to the question of rising prices due to implementation of VAT 91% of the respondents do not agree with the statement.
6. VAT involves more paperwork and cumbersome calculation. Many respondents suggest that the State Govt. should abolish the entry tax, luxury tax etc.
7. Input Tax Credit system and TDS refund system should be improved.
8. The interaction with the tax authority reveals that more staff should be provided to enforce the VAT system properly.
9. Public awareness programmes should be made to make the people informed about the VAT.

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